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August 3, 1992

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$10 An Issue $150 A Year

AT DEADLINE

Investors near bailout OK

The plan to bail out Mutual Benefit Life is expected to be finalized and filed in court this week. A group representing retirement savings plans holding Mutual Benefit contracts was working last week to iron out some differences in treatment between classes of contractholders.

IAI quits Minneapolis account

Investment Advisers, Minneapolis, has resigned as manager of a $12 million domestic, small-cap value equities fund for the Minneapolis Employees Retirement Fund.

James Hacking, executive director and CIO of the fund, said staffers had been concerned about the account's performance.

Cox to join NYNEX fund

Candace Cox, principal investment officer of the $45 billion New York City employees' fund, is joining NYNEX as managing director in charge of the pension fund's $12 billion in public market investments.

Fong going independent

Gifford Fong Associates, a leading developer of fixed-income investment management tools, is buying itself back from Prudential Insurance effective Aug. 3. The firm was acquired by Prudential in 1986.

First Reserve sets meetings

First Reserve Capital Management has scheduled three regional investor meetings to discuss the implications of a Houston jury's damage award against the firm.

Meetings have been scheduled

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INSIDE

MICHAEL A. MARCOTTE

A new day dawns

Judy Mares has overseen some sweeping changes at Ameritech's pension fund, including the unwinding of its large dedicated bond portfolio and the de-emphasis on real estate and venture capital. Page 3.

Quality management hits funds

Bell Atlantic significantly increases passive investing, may cut managers

By Marlene Givant Star

PHILADELPHIA — Bell Atlantic Corp. is making significant shifts to passive management in both its $11.6 billion defined benefit and $2.5 billion savings plans as part of a companywide quality management program.

Also as a result of the program, Bell Atlantic made its first international commitment for the savings plan, and over time will reduce the defined benefit plan's number of money managers.

Under the direction of chief executive Raymond Smith, the quality management strategy, "The Bell Atlantic Way," is a set of agreements on how employees of the company will work together. It took hold at the pension fund level about a year ago.

Bell Atlantic's pension operation began its quality management strategy by "benchmarking," or comparing the fund's structure, processes and costs with that of peers. It then sought feedback from participants in its

Bell Atlantic

401(k) plan and implemented other quality management processes.

This ongoing exercise has resulted in a number of changes:

- The defined benefit plan is increasing, significantly, its passive exposure in large-capitalization equities, fixed-income and international investments.
- Pension executives are taking steps to eliminate the overlap of styles within asset classes and to increase manager efficiency in the defined benefit plan. "We're in the implementation process. Over time we will reduce the number of managers," said Thomas Cowhey, executive director-trust investments at Bell Atlantic.
- Bankers Trust Co., New York, was hired, effective May 1, to establish a managed participant service center, a toll-free telephone service through which 401(k) plan participants can access information and make transactions. New investment options for the savings plan were offered as of the same date to encourage use of the center.
- Investment options in the 401(k) plan were changed as follows: The diversified equity fund, which had been actively managed, became a Russell 3000 Index fund; an international gross domestic product-weighted index fund based on the Morgan Stanley Capital International Europe Australia Far East Index was added; a money market fund and a bond market fund replaced the short-term government bond fund; the guaranteed investment contract fund changed its name to an interest income fund and the guidelines for the fund were enhanced to permit investments in alternatives such as synthetic GICs. The Bell Atlantic shares fund remains unchanged.

The percentage of passive management for the defined benefit plan will be a function of the perceived opportunity to add value within each asset class and the cost of active vs. passive.

See **Passive** *on page 34*

Time Warner fails to mute protest

Police groups vow to wield proxy weapon

By Steve Hemmerick

Time Warner Inc. still faces serious corporate governance runins with pension funds even though the company honored Ice-T's request to pull "Cop Killer" from his "Body Count" album.

Public safety officials across the country are pushing their police pension funds and other public pension funds — with an estimated $1 trillion in assets — to unite behind them in a shareholder activism assault on Time Warner.

And other corporations might in the future feel the effects of the awakening to the power of proxies of police pension funds.

Until now, police pension funds have had little interest in corporate governance. Indeed, when the flap over "Cop Killer" began, police groups initially demanded their pension funds sell Time Warner stock, and some did. Only later did they seem to understand their best shot at affecting the company would come from being stockholders.

"Sell the stock and you are playing into Time Warner's hands," said Sam Diannitto, president of the $4.8 billion Los Angeles Fire & Police Retirement System.

Tom Scotto, a trustee of the $7 billion New York Police Department Pension Fund, at first wanted only to divest his fund's $50 million holdings in Time Warner stock and another $50 million in stock of companies, such as McDonald's Corp., that do deals with Time Warner.

But now, Mr. Scotto said, shareholder actions aimed at stopping Time Warner from producing "Cop Killer" and other offensive albums are necessary.

Mr. Scotto said he plans to suggest corporate governance actions to the 140,000-member National Association of Police Organizations.

Mr. Scotto is an executive vice president of NAPO, which meets later this month in Tampa.

If there is any information on Time Warner that can be used in a corporate governance action, Mr. Scotto, a New York detective, said his city's detectives will find it. "New York detectives are the best in the world," he boasted.

Public safety officials have been planning a shareholder battle for 1993 since their request to yank "Cop Killer" from distribution was rejected at the company's annual meeting last month.

Mr. Diannitto said he still intends to push Time Warner to adopt an ethics policy and, perhaps, to replace some directors. Removing the song from the

See **Protest** *on page 34*

AP/WIDE WORLD PHOTOS

The storm of protest touched off by Ice-T's "Cop Killer" continues to mount.

Alliances recast 401(k) plan competition

By Hillary Durgin

In what promises to be a head-to-head battle for the more than $300 billion 401(k) market, Hewitt Associates is allying with nine investment managers and a trustee to wrest market share from mutual fund moguls such as Fidelity Investments and Vanguard.

Hewitt's plan, which is not yet finalized, follows close on the heels of a similar arrangement forged by Hazlehurst & Associates Inc., Atlanta, a retirement services consulting firm, whose venture with eight mutual fund providers, an investment consultant and a trustee was up and running July 1.

The new alliances represent the second major evolution in the defined contribution plan arena following the explosive entry into the market in the late 1980s of the one-stop-shopping concept. Essentially, the alliances are offering an unbundled version of that approach.

"The longtime record keepers like the Hewitts, the Hazlehursts, the Wyatts and so on are all industry record keepers, and they are losing primarily to the Vanguards and the Fidelitys," said Gordon Snyder, senior vice president-institutional marketing and service, Twentieth Century Mutual Funds, Kansas City, Mo. Twentieth Century is participating in both the Hewitt and Hazelhurst ventures.

"They're being knocked off at the high end of the market," he said. "Clearly the target here is Fidelity."

By offsetting the high cost of record keeping with investment management fees, mutual fund players have provided record-keeping services at a significant discount to fees charged by consultants. In addition, the firms'

See **Alliances** *on page 19*

NEWS DIGEST

AP/WIDE WORLD PHOTOS

Spaniards — currently engrossed by the glory and pageantry of the Summer Olympics — have seen little change in the country's private pension system despite reform efforts enacted by the Socialist government five years ago. Page 6.

SPECIAL REPORTS: DEFINED CONTRIBUTION PLANS —

Fidelity and Vanguard top the list of most frequently used providers of non-guaranteed investments to 401(k) plans, according to a *P&I* survey. Page 17.

Cummins Engine boosted participation in its newly restructured $300 million savings plan by making employees re-enroll. Page 17.

Participant education is drawing more importance, and more service providers. Page 17.

FINANCING

Atlantic Richfield's and Tennessee's pension funds were among the U.S. institutions buying Wellcome PLC shares. Page 4.

The 144A market could get a boost if the SEC expands its definition of a qualified institutional buyer. Page 24.

INTERNATIONAL

The New Hampshire Retirement System is working on globalizing its entire portfolio. Page 22.

Australian employers must pay at least 3% of pay to superannuation plans to cover all employees. Page 23.

African Development Bank bonds offer pension funds an investment presence on the African continent. Page 26.

U.K. rules governing disclosure of stakes in public companies have been eased. Page 30.

REAL ESTATE

A change in office space needs casts a shadow over future valuations for the properties. Page 3.

The Massachusetts employees and teachers fund committed $50 million to a mortgage program. Page 29.

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Vol. 20, No. 17 — Pensions & Investments (ISSN 1050-4974) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

Mortgage-backeds dumped

Pre-payment rate spurs Ohio fund's $4.1 billion sale

By Barry B. Burr

COLUMBUS, Ohio — In one of the biggest sell-offs ever by a pension fund, the Ohio Public Employees Retirement System dumped its $4.1 billion portfolio of mortgage-backed securities over concern about the rapid pace of pre-payments and the expectation it would quicken.

Robert A. McLaughlin, investment officer, said the fund — which ranked as the fifth largest pension fund investor in mortgage-backed securities — sold the securities between mid-May and mid-June. The portfolio, which was managed internally, represented 16.1% of the $25.5 billion fund.

The Ohio fund made "substantial gains in the sale," Mr. McLaughlin said. "Mortgage-backed securities have done very well for us." Details were unavailable.

He said the Ohio fund used no derivatives or special trading techniques to sell the mortgage-backed securities through a number of broker/dealers. "The one that helped us the most was Bear Stearns," he added, referring to the New York-based investment bank.

"The sale had no impact" on the market, Mr. McLaughlin said.

The mortgage-backed market, which is more than $1.1 trillion, "could absorb that sale with no problem," agreed Lewis Ranieri, principal of Hyperion Capital Management Inc., New York, and a creator of the instrument.

In explaining the fund's move, Mr. McLaughlin said, "We look at total return" for the portfolio as opposed to yield. "With most mortgages selling at premiums, the pre-payment penalty is hard to swallow. It looks like people will continue to refinance" their mortgages. Mr. McLaughlin said the Ohio fund bought all long-term Treasury securities with the proceeds of the sale.

Mr. Ranieri, in commenting on the Ohio fund's move, said, "In light of what the market's done, (the sell off) was a rational move to make. On a performance basis it makes sense."

The market's "been very nervous," Mr. Ranieri added. Mortgage-backed securities with "coupons of 9% and above have been underperforming because of concern about pre-payments," especially in the past few weeks as long-term interest rates in general have declined.

Mortgage-backed rates, which now average about 7½% to 8%, averaged 8½% in the beginning of the year and more than 9% a year ago, he said.

Aside from falling rates, Mr. McLaughlin said bankers them-

See **Ohio** *on page 32*

Struggling over retiree health

Firms weigh costs, workers' security

By Joel Chernoff and Hillary Durgin

LTV Steel's agreement to back part of its retiree health obligation with up to $250 million in corporate liens was a key concession in getting its union to agree to health-care cost containment measures.

While the LTV situation is viewed as a unique solution and not likely to be copied by many companies, it still is emblematic of how old-line industrial companies are struggling to come to terms with their massive retiree medical costs while providing a measure of security to workers.

In other recent examples, companies that have emerged or are still mired in Chapter 11 of the Federal Bankruptcy Code are trying to come to grips with these staggering costs:

- Navistar International Corp., Chicago, is seeking court permission to lower its retiree health costs by $90 million a year. The United Auto Workers is opposing the move.
- Hanlin Group Inc., Linden, N.J., tried unsuccessfully to unilaterally lower its retiree medical costs, but a federal bankruptcy judge ruled the chemical company must negotiate reductions with its retirees.

When struggling to climb or stay out of Chapter 11, companies are more inclined to go to the mat with their unions in efforts to reduce such costs.

Meanwhile, unions "are looking to make sure the benefits are paid for and assets are set aside," said Michael Shone, president of Pierce Park Group, Wilmington, Del.

See **Health** *on page 31*

DOUGLAS KONKOL

LTV Steel's agreement with its union on retiree health care could be a starting point for other companies grappling with the issue.

Equitable Capital cuts top staff

By Anne Schwimmer

NEW YORK — Equitable Capital Management Corp. has let go its vice chairman; the heads of product development, pension marketing and systems; and a senior fixed-income portfolio manager.

David Downes, vice chairman; James Pappas, executive vice president head of the product development and management group; Joseph Briggs, executive vice president head of the pension and institutional markets group; Patrick Mellet, executive vice president and head of information systems; and Patricia Owens, senior vice president and a short-term fixed-income portfolio manager, all have been let go, sources said.

Separately, Zane Brown, formerly executive vice president and head of fixed-income, left the firm in February and since has joined Lord, Abbett & Co.

John Miller, Equitable Capital's president and chief executive, said the staff cuts are part of a downsizing of the firm's marketing and back-office operations.

He said most of the vacancies will probably remain unfilled. "Obviously, as we go down the road, if I identify the need for a powerful individual and we find a powerful individual we'll put the two together," Mr. Miller said.

"When I took over the job as CEO (in April), it gave me the opportunity to do with the organization as I thought best," Mr. Miller said. "The back office and support group and the marketing group is in a reorganization. It is being made more efficient.

"We're taking out some layers and cutting costs," he added.

Under the new structure, Frank Savage, chairman, is also in charge of global marketing, with Robert Coby, the new chief financial officer and treasurer, heading up systems, accounting and control. Mr. Miller will oversee the legal department.

"It's a very orderly, planned program. We're just in the middle of executing it. . . . In my judgment, we're doing the right thing," he said. He declined to say if further cuts could be expected.

See **Equitable** *on page 35*

Ameritech fund moves cautiously

Judy Mares makes her mark

By Curtis Vosti

CHICAGO — The $15 billion Ameritech Corp. pension fund has in the past two years been stamped by new leadership and a transformation seemingly as significant as its birth 10 years ago.

Gone are the days of the deal, when movie stars bent an ear, when the money was invested so fast and furiously the agreements reportedly piled up in boxes, and the press clippings paved the way for jobs on the sell side.

Instead, today's Ameritech takes a deep breath. In the two years since Judy Mares took over as chief investment officer on June 18, 1990, the fund is cautiously taking stock of itself — too cautiously, some say.

But Ms. Mares dismisses those critics, saying the fund can be more deliberate now that it is approaching 10 years old. Times have changed, the markets are not booming, so some investments may not make sense and have to be unwound. A deliberate plan of action will follow soon, now that key vacancies have been filled.

The important thing is that now it's *her* staff, she says. Her ways are different from those of Donald Phillips, whom she replaced.

Ms. Mares still bristles at the mention of her predecessor and former staff. There's a scared look from pension industry executives at the mention of Ms. Mares' name — after all, she controls $15 billion. Those who worked with her at Ameritech or as service providers get clammy when asked about their separation; current staff just clams up.

And while Ms. Mares isn't eager to talk of her accomplishments, or her personnel, the reticence belies Ameritech's activity in her tenure:

- In the past year, Ms. Mares has unwound the $2.4 billion dedicated bond portfolio that had been the centerpiece of the pension fund's portfolio strategy since 1984. The assets have been parceled out to Goldman Sachs Asset Management and Fidelity Investments for active management in what Ms. Mares calls a more structured approach.
- Though no new investments have been made, Ameritech's real estate portfolio has a far different tone from when she began. The portfolio reportedly took a $330 million writedown in 1991. Ms. Mares won't confirm or deny that, but says she took a "realistic" look at the portfolio and it did result in writedowns. The company valued the portfolio at $1.36 billion at the end of 1990, with an additional $352 million in future commitments.

The real estate staff has more than doubled, and there is a new director. Ms. Mares sued the former real estate director for alleged prohibited transactions, but then settled shortly thereafter without a word. No new investments have been made as old ones are getting the once-over and restructuring is the watchword.

- The fund is set to add balanced and equity options and otherwise restructure its $1.6 billion savings plans, as it takes a more proactive approach to the growing defined contribution assets, encouraging participant-directed investments.
- There's been an almost complete turnover in the Ameritech pension staff, through early retirement, new jobs or mutual agreement. On Aug. 1, Ms. Mares got her third new boss in two years, and this month she is expected to fill the equity director's

See **Mares** *on page 33*

MICHAEL A. MARCOTTE

Judy Mares eliminated Ameritech's dedicated bonds and attacked the fund's real estate problems.

Legislators' benefits can exceed pay

By Christine Philip and Rodd Zolkos

Sixteen state senators and 14 state representatives would receive retirement benefits exceeding their annual salaries if they retire at the end of their current terms.

And in one state — Texas — the yearly pension benefit of Chet Brooks, the senior senate member, would exceed final salary by 660%, according to a survey by *Pensions & Investments* and its sister publication, City & State.

The survey covered years of service, salary, benefits and benefit formula for the senior members of each state's house and senate. Representatives' benefits often are boosted by additional pay for committee and leadership positions, and for per diem expense reimbursement for meeting outside regular sessions.

Oklahoma ranked first for state senate retirement benefits, with an annual benefit of $55,040 to Gene Stipe, the most senior member with 43 years, if he retires at the end of the 1992 term. With an annual salary of $32,000, the pension represents 172% of the senator's final salary.

Louisiana's senior senator, B.B. "Sixty" Rayburn, followed with $52,527 in annual compensation, 116% of a final salary of $45,463, for 44 years of service.

In Texas, Mr. Brooks' benefit is estimated to be $47,522, a whopping 660% of his annual salary of $7,200. He has served for 29 years.

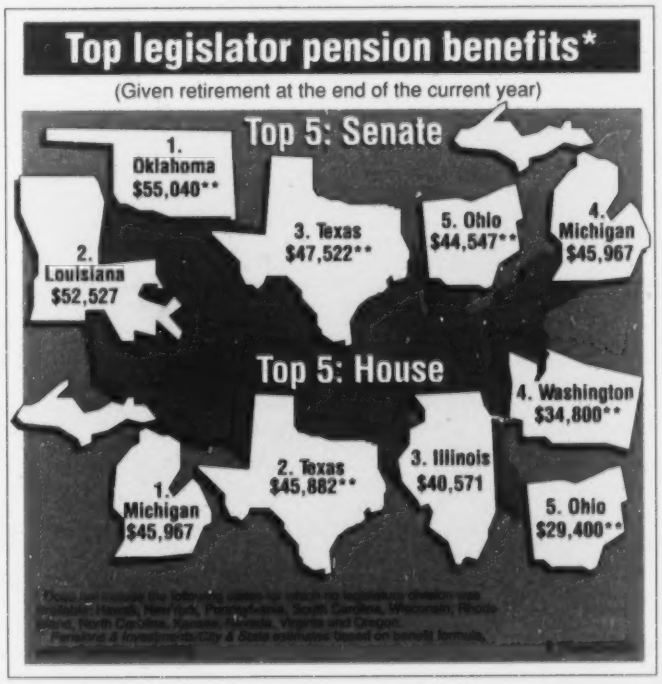
Seven states — Alabama, Nebraska, New Hampshire, North Dakota, South Dakota, Vermont and Wyoming — do not offer legislators any retirement benefits.

Benefit payments are lower for state House of Representatives members. The top states ranked by annual benefits paid to the senior member of the House include Michigan, with a benefit of $45,967 to Dominic Jacobetti for 38 years of service at a final salary of $45,450.

Texas' senior representative, Doyle Willis, would enjoy a benefit comparable to his senate counterpart — $45,882 for 28 years of service. That represents 637% of his final salary of $7,200. Illinois' senior House member, 34-year veteran E.J. Giorgi, would receive a benefit of $40,571, or 109% of the $37,230 final salary.

By contrast, senators in some states receive retirement benefits that are dramatically lower than their pay. California senators receive a salary of $63,000, but the most senior member — Ralph Dills — would receive an annual pension benefit of only $3,083, just 5% of final salary, for 35 years of service. Idaho's senior senator would have a benefit of

See **Pensions** *on page 35*


Top legislator pension benefits*
(Given retirement at the end of the current year)
Top 5: Senate
1. Oklahoma $55,040**
2. Louisiana $52,527
3. Texas $47,522**
5. Ohio $44,547**
4. Michigan $45,967
Top 5: House
1. Michigan $45,967
2. Texas $45,882**
3. Illinois $40,571
4. Washington $34,800**
5. Ohio $29,400**
* Does not include the following states in which no legislative retirement was available: Hawaii, New York, Pennsylvania, South Carolina, Wisconsin, Rhode Island, North Carolina, Kansas, Florida, Virginia and Oregon.
** Pensions & Investments/City & State estimates based on benefit formula.

Secular changes dim outlook for offices

By Steve Hemmerick

LOS ANGELES — Continuing cutbacks among large employers, increasing sophistication of telecommunications and changes in how companies use office space have institutional investors worried about future estimated values of office buildings.

Investors see these trends as having long-term, unanticipated impacts on office space needs. Telecommunication devices like cellular telephones allow companies to move their base of operations outside of expensive central business districts where pension funds have heavily weighted their office investments.

Pension investors have been waiting for the office market to recover from overbuilding and the recession. Both are seen as lengthy but still relatively short-term troubles for the office market. But now some investors think pension funds have been underestimating secular problems in the office market, where they have invested an estimated $37 billion.

Hughes Aircraft Co. announced July 1 it will lay off 9,000 workers — many of them middle managers — in the next 18 months. Less noticed was Hughes' announcement it has 7 million square feet of unused or underused space — the equivalent of seven office skyscrapers or seven regional malls.

It is unlikely companies like Hughes, which has seen the number of employees drop to 60,000 before the July 1 announcement from 80,000 in 1986, will need that excess space anytime in the near future, pension real estate consultants believe.

Shortly before Hughes announced the cutback, Bill Messori, manager of real estate for Hughes, said his company is "trying everything" to get rid of unused space. Mr. Messori said Hughes executives, including Treasurer W. Allen Reed, have told him the excess space Hughes has is a large drain on Hughes' earnings.

While pension funds are trying to keep rents as high as possible, Mr. Messori said Hughes is subleasing space, much of it office space, at dirt cheap levels. "If we get 25 cents (on the dollar) back, we think it is better than getting nothing back," he said.

That kind of thinking has pension investors worried. Albert W. Kirschbaum, a senior vice president at Bechtel Investments Inc., which manages Bechtel Corp.'s $2 billion pension fund, said the outlook for office properties is dismal. Besides the surplus space, he said, the work force isn't growing and some companies are beginning to send office work offshore.

Mr. Kirschbaum said his fund has only 20% of its real estate allocation invested in office space, substantially less than the 37% held by the typical pension fund. He added Bechtel intends to reduce the size of the office component even further.

As recently as 1988, pension funds had 44% of their real estate assets invested in office proper-

See **Offices** *on page 32*

Fidelity wins 401(k) sweepstakes

By Michael J. Clowes

Fidelity Investments, The Vanguard Group Inc. and T. Rowe Price Associates Inc. are the three most commonly used providers of non-guaranteed investment vehicles to 401(k) plans, a *Pensions & Investments* survey shows.

Fidelity, Boston, was named 24 times as providing one or more investment options, the Vanguard Group, Valley Forge, Pa., was named 19 times, and T. Rowe Price, Baltimore, was named 11 times by the 118 sponsors responding to the survey. If a provider was named for more than one asset class, each counted as a separate mention.

Behind the three leaders were Bankers Trust Co., New York, with 10 mentions; Wells Fargo Nikko Investment Advisors, San Francisco, nine; and Twentieth Century Investors Inc., Kansas City, Mo., eight.

The most commonly named providers of guaranteed investment vehicles by the 100 401(k)-plan sponsors offering a GIC/BIC option were Prudential Insurance Co., Newark, N.J., with 15 mentions; and Travelers Insurance Co., Hartford, Conn.; Metropolitan Life Insurance Co., New York; and Provident National Assurance Co., Chattanooga, Tenn., each with 11 mentions.

Only 69 plan sponsors offered a basic active equity option, while 50 offered an index fund option, 18 offered some specialty equity option, 18 offered international or global equity options, and 11 offered a high-dividend equity option. Forty sponsors offered a balanced fund option.

Fidelity was identified most often as a provider of basic active equity investment options, being mentioned 37 times, with each separate fund being counted as a mention. Many sponsors provided more than one equity option.

For example, one 401(k) plan used Fidelity's Magellan fund and its Equity Income fund. Another used the Vanguard Windsor and Explorer funds.

Other plans used a variety of equity providers. One, for example, used Fidelity's Equity Income fund, Vanguard's Windsor fund and the Twentieth Century Growth fund.

Behind Fidelity in providing the basic equity options were Vanguard Group, with 27 mentions; Twentieth Century Investors, eight; Bankers Trust, eight; and T. Rowe Price, seven.

The top fixed-income option providers again were Fidelity, Vanguard and T. Rowe Price, followed by Bankers Trust, the Putnam Cos., Boston, and Wells Fargo, with three mentions each.

Only 27 sponsors offered an active bond option. The sponsors provided fewer fixed-income options than equity options — generally only one bond fund — for employees, possibly because most of them offered a GIC/BIC option.

While 23 sponsors said they administered their 401(k) plans internally, the most commonly used external providers of 401(k) administrative services were Fidelity and Hewitt Associates, Lincolnshire, Ill., both with 12 mentions.

The respondents reported their participants had invested 49.7% of their assets in the GIC/BIC option, on average, and 33.9% in company stock.

The respondents said a firm's performance record was the most important criterion in choosing investment option providers. On a scale of 1 to 10, with 10 being most important, the average rating for performance as a criterion was 8.6, followed by quality of the firm's personnel, 7.8, and the firm's reputation, 7.5. ■

Most used 401 (k) plan administrators

Firm	No. of mentions
Internal	23
Fidelity Investments	12
Hewitt Associates	12
Buck Consultants	4
William M. Mercer	4
State Street Bank	4
T. Rowe Price	4
Vanguard Group	4
Wyatt Co.	4

Most used providers of 401 (k) investment vehicles

Firm	No. of mentions*
Fidelity Investments	24
Vanguard Group	19
T. Rowe Price	11
Bankers Trust	10
Wells Fargo	9
20th Century Funds	8
State Street Bank	6
Putnam Cos.	5
Northern Trust	5

* Each mention for an asset class counts as one.
Source: Pensions & Investments

401(k) survey

		Average asset allocation
No. of respondents	118	
No. of separate plans	229	
Total assets	$68.8 billion	
Total participants	156,596	
No. offering GIC/BIC option	100	49.7%
No. offering money market fund	56	10.6
No. offering Treasuries fund	14	15.7
No. offering domestic equity fund	69	18.2
No. offering specialty equity fund	18	9.9
No. offering global equity fund	7	3.2
No. offering company stock option	75	33.9
No. offering index fund option	50	9.1
No. offering international equity fund	11	3.1
No. offering active bond fund	27	4.5
No. offering high-dividend stock fund	11	13.5
No. offering balanced fund option	40	16.7
No. offering other options	21	4.3

Source: Pensions & Investments — RICHARD CARTON

Cummins Engine has combined three savings plans into one, and boosted participation.

Cummins' fresh start gets results

By Curtis Vosti

COLUMBUS, Ind. — Cummins Engine Co. Inc. found a simple yet effective way to boost employee participation and understanding of the changes in its $300 million savings plan this year: it made everybody re-enroll.

The result is the firm now has one bundled-type savings plan with more investment options, flexibility, features and communications than the previous three separate plans almost had combined, according to Carol Smalley, director of pensions and investments for the diesel engine manufacturer.

A beneficial side effect is the company also has increased participation, with more dollars allocated to the plan and a greater percentage of those dollars going into equity investments.

"I view the process as a success," Ms. Smalley said. "Rather than default everyone into the new plan, we wanted people to make an active decision."

The concept, she explained, grew out of a long look in 1991 at the company's three separate savings plans. Like many companies with maturing defined contribution plans, Cummins saw burgeoning account balances, yet 17,000 participants with a majority of their investments in guaranteed products and fixed income.

Cummins' executives also saw three different administration and record-keeping systems and restricted investment options. An after-tax savings plan, established in the 1970s, only had a guaranteed investment contract option. A 401(k) established in 1985, only had the guaranteed fund and a balanced fund that was commingled with its now-$900 million defined benefit plan. A merger with Minneapolis-based Onan Corp. brought another 401(k) plan into the fold. All had different company match provisions.

"We were looking at adding to the investment options and we decided to take advantage of that to combine the plans," Ms. Smalley said.

The company went to what Ms. Smalley calls a bundled approach, although its trustee and investment manager, The Vanguard

See **Cummins** *on page 18*

Firms filling the void on plan education

By Curtis Vosti

Participant education in defined contribution plans has become so important the American Council on Education is recommending college credit for it.

That's no joke. Divisions of companies such as American Telephone & Telegraph Co., Apple Computer Inc. and BellSouth Corp. and the City of Miami have used education offered through the Cleveland-based Employee Benefit Education and Planning Service, according to Mel Albin, president of the company he began about four years ago. Employees who take these courses can earn college credit at the 100 and 300 level, according to the education council.

The classes are taught on-site at the company by two EBEPS teachers. The average teacher is an attorney, accountant or financial adviser, 47 years old, with 14 years of professional experience and between five and 10 years of teaching experience, according to Mr. Albin. The company has 260 teachers lined up around the country. Mr. Albin said some companies implement cost sharing among their employees, who are charged $295 for the 300-level class and $99 for the 100-level class, which just focuses on personal financial planning.

Close to 400 management and non-management employees for Southern Bell in central Florida went through the course, according to Larry Strickler, regional manager, who was so taken with the concept he is trying to get parent company BellSouth to market the program nationwide.

Mr. Strickler said the program can not only help the participant better understand defined contribution plans, but also can help the company save money.

The program also can be used by companies that are downsizing. He said when Southern Bell offered an early retirement window, six out of 26 management employees who were referred to the EBEPS program decided they could afford to retire, and took advantage of the opportunity.

Each of the program's courses has six three-hour sessions and are designed for up to 30 employees, with spouses encouraged to attend at no charge, according to Mr. Albin. He said because the courses are accredited by the ACOE, it helps company executives feel more secure they are staying within their fiduciary role.

"We are not advocating specific advice," Mr. Albin said. "We are educating."

And he is not alone. The focus on education of plan participants in defined contribution plans is sharpening with the maturing of 401(k) plans and the blossoming of some significant account balances. New firms are sprouting up and older ones are taking a new look.

Loomis, Sayles & Co. Inc. has teamed up with EBEPS as Loomis has moved into the 401(k) service area. By selecting EBEPS through Loomis, employers get a 20% discount.

The education comes in many forms — everything from quarterly newsletters to person-to-person sessions to computer software to videos — and in doing so, forces a change in the way sponsors approach the business of communicating with plan participants.

"The world has changed," said Lisa Hoene, president of employee education at IDS Institutional Marketing, Minneapolis. "We have changed our focus from communications services to helping people make intelligent decisions," she said. "It used to be on participation, but now it's on what are they going to do with all this money."

IDS has more than 200 financial planners across the country that feed into IDS' services and help train the trainers at client companies, Ms. Hoene said. The aim is to help employees better understand retirement needs through increased savings and better allocation of investments, she said.

At a recent new client, McCarthy Building Co., St. Louis, participation in the $15 million defined contribution plan increased to 87.3% from 80.6% after the sessions with the IDS staff, according to Jim Faust, McCarthy vice president of information services and human resources.

The employee education was done in conjunction with a switch of investment options and an easing of the restrictive nature of the company profit-sharing investments and match for employee contributions, which previously went into a so-called stable fixed-income fund, he said.

But with the overall effort from IDS, he said, participants directed 34.5% of their assets, including the company match and profit sharing, to equity options, 42.2% to bond and balanced accounts and 23.3% to stable income.

More importantly, he said, 44.7% increased their contributions, which allowed the company to raise allowable contributions from highly compensated individuals to 10%. Additionally, he said, the education helped new enrollees understand the benefits of

See **Void** *on page 18*

DEFINED CONTRIBUTION PLANS

Void

Continued from page 17

saving in the plan, and they put aside an average of 6% of earnings into their new accounts, far higher than earlier averages.

Mr. Faust gives a large share of the credit to the toll-free lines established to answer employee questions. It's sort of like a continuing education program and is getting "rave reviews," he said.

Other firms also are sprucing up their 401(k) education efforts as they recognize, as did IDS, that the world has changed.

John Wentzel, vice president for retirement and investment services for State Mutual Life Assurance Co., Worcester, Mass., said the firm has just developed a new 401(k) communication package to better serve its clients by helping them pass non-discrimination tests.

"You've got to get to the rank-and-file employees," he said. "They are crazy for information on how much to save and how to figure that out."

As such, the company has developed its own prototype of the savings calculator, with which employees can plot expected needs and earnings and get recommended savings rates.

401(k) Ventures, Palo Alto, Calif., is a new education firm that will conduct employee seminars and produce handouts, covering investment goal setting and strategies, asset allocation, risk concepts, how to read a prospectus, fund expenses and definitions of beta, turnover and other terms, according to President Brian E. Schaefer, who left Bailard Biehl & Kaiser earlier this year to start the firm.

ASK Computer Systems Inc., Mountain View, Calif., hired 401(k) Ventures to conduct continuing education programs for employees about participating and investing in the company's $20 million 401(k) plan, said Gloria Simon, administrator.

"It was an area that needed a lot of attention," she said.

ASK Computer's 401(k) plan has 95% participation among its more than 1,200 employees, she said. "We want (employees) to take responsibility for decision-making," she said. "Our purpose is to empower them so . . . they build confidence. We want to take the mystique out of investing."

That mystique can be best challenged through what consulting firm Noble Lowndes calls "the theory of progressive disclosure."

According to Holly Smith Billy a Noble Lowndes senior communications consultant in Newtown, Pa., this theory states the greater emphasis on investment education is best assimilated through breaking the information into "manageable, bite-size portions using a multimedia approach so that the participants can understand the message through the medium that best serves them.

"We have less emphasis on how the plan works and more on the opportunities for long-term compounding of interest," Ms. Smith Billy said. ■

Pensions & Investments' annual master trust/global custody directory will be published Oct. 12.

Cummins

Continued from page 17

Group Inc., is separate from its record keeper, Kwasha Lipton.

The two firms work together, with Kwasha acting as a go-between between the company and Vanguard. "We take the lead role," said Jeff Croyle, a Kwasha Lipton partner who worked on the arrangement. "We've eliminated a great deal of paperwork that used to loop through Cummins."

The result is the firm was able to save a bundle on the record keeping, while consolidating the plans. Additional investment options and phone information services didn't increase plan costs.

Effective Jan. 1, participants have five investment options: fixed income, balanced, stock index, growth stock and company stock funds. They also have monthly valuations and monthly switching.

But the best part, according to Ms. Smalley, is the savings plan is better structured and participants are using it better.

"The people who are contributing are contributing more to this plan," she said, noting a 20% increase. In addition, only 59% of the assets are in guaranteed products. Before, largely because of plan design, about 85% of assets were in guaranteed products.

She gives great credit to the phone systems, through both Vanguard and Kwasha, which give participants access to both fund information and their own account balances. The result is a structure and motivated participant population that sets the fund well for the future.

"Technology can be pretty scary to a lot of people," she said. "Five years ago we were in transition. The appetite for all this wasn't there." ■

ON BUILDING 401(k) PARTICIPATION

Gail: "If you don't join the plan, you're throwing away a bonus every year."

What do veteran 401(k) sponsors say about building participation in a plan? What can you learn from issues they faced, problems they solved, and experiences they shared? Scudder recently held a "401(k) Roundtable" to discover some of the answers.

Meet Gail Reilly of Lancer Insurance Company, R. Ford Hutchinson of Combe, Inc., Lynda Sacharov of Richards & O'Neil, and Leonard Hirsh of Ernst & Young.

How do you encourage participation?

Gail: I do a slide presentation on the actual implications of our plan and the operations of it. The ramifications of how it affects net pay, the tax effect it is going to have. It encourages people to sign up.

Ford: Our stance on it has been to encourage people to carefully review the information and to provide them with enough information so they can make an intelligent choice.

What sort of information?

Lynda: It's important for our employees to realize that if they're going to participate in a 401(k) they have to go into it with the understanding that this money is for their retirement . . .

Gail: It's a long-term investment. And that has to be conveyed, particularly to new participants.

Ford: You want people to go in with their eyes open. You really want them to understand.

What first attracts new entrants to your plan?

Ford: I think the most important reason that persuades people to join is the fact that the company contributes. There is a tax advantage.

Gail: I start every presentation with, "If you *don't* join the plan you're throwing away a bonus every year."

Ford: Even if the company doesn't contribute—a 401(k) plan can be presented and "sold" as a benefit.

What role does the investment mix play?

Ford: A good plan should have an array of investment options, from conservative to aggressive, to give participants a complete choice. Because if you don't have a spectrum, you're not going to really be addressing everyone's need.

What's the "ideal" number of investments?

Gail: We have three investment options

Ford: I think the more choices you have the more difficult it is to explain.

What determines which investments you offer?

Ford: Our participants. There will be some, perhaps those who are younger, who want to invest in more aggressive things. Of course, you also want to provide the means for them to move their money into more conservative things as they reach an older age.

Leonard: Most investment firms offer comparable funds. There might be a fraction of a percent difference as far as the returns go. So the lower the fees, the more competitive the vendor.

What's the bottom-line?

Ford: There's a lot out there. Find a vendor that gives you a full array of funds and has a proven track record.

TO LEARN MORE...

This 401(k) Roundtable was sponsored by Scudder. The Scudder 401(k) program offers a family of no-load mutual funds (including noted international funds); a managed GIC fund; comprehensive participant accounting services (COMPASS); corporate trustee services; an IRS approved and tested prototype; and a reputation for personal client service. Scudder Investor Services, Inc., underwrites over 50 mutual fund portfolios.

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Importance of criteria for selection of investment services providers

	Average rating*
Performance	8.6
Quality of personnel	7.8
Reputation of firm	7.5
Fees	6.6
Administrative package	4.8
Range of funds	4.0

* 10=most important; 1=least important
Source: Pensions & Investments

RICHARD CARTON

Most used providers of GICs/BICs

Firm	No. of mentions*
Prudential Insurance	15
Travelers Insurance	11
Metropolitan Life	11
Provident National	11
The Principal	9
John Hancock	9
Aetna	8
T. Rowe Price	8
CNA	7
Fidelity Investments	7
Hartford Life	7
New York Life	7
Bankers Trust	6
Vanguard Group	6
Allstate Life	5
IDS	5

* Many sponsors use more than one provider
Source: Pensions & Investments

Alliances

Continued from page 1

focus on individuals through their retail business and their daily (rather than monthly) valuations have given mutual funds an edge in the institutional market.

By teaming up with other mutual fund players, Hazlehurst, Hewitt and others will offer record keeping at competitive prices. Essentially, these alliances will be providing participants with the ability to make daily transfers among funds and receive daily valuations.

And by offering not only a broad array of investment services but also superior consulting and compliance resources, these firms say the combination of lower costs plus the ability to provide greater flexibility will enable them to regain the lucrative 401(k) market share they lost — and more.

"The major consulting and record-keeping firms are in the process of offering a substantially different product in the next several years," said Richard Pallan, senior managing director at The Putnam Cos., Boston. "They will be attempting to emulate bundled services." Putnam expects to participate in the Hewitt alliance subject to final completion of the contract.

The new allfances are giving plan sponsors more choices.

At The Blue Cross Blue Shield Association, Chicago, where $250 million in 401(k) plan assets from 25 individual Blue Cross Blue Shield organizations is administered, cost and flexibility are two factors driving their search for a new 401(k) manager.

"What we're trying to get is the daily pricing that you have in the mutual funds, but the fee structure of the commingled funds" the plan had been using, said Ron Schmitz, director of benefit financing.

Currently the association uses IDS, Minneapolis, but found as it switched out of commingled funds into mutual funds, the association lost its size advantage. The commingled fund fees were based on the aggregate 401(k) assets. The mutual fund fees were based on the individual plans' sizes.

Mr. Schmitz said under the new

See **Alliances** *on page 21*

Most used providers of... 401 (k) equity investments

Firm	No. of mentions*
Fidelity Investments	37
Vanguard Group	27
20th Century Funds	8
Bankers Trust	8
T. Rowe Price	7

401 (k) fixed-income investments

Firm	No. of mentions*
Fidelity Investments	6
Vanguard Group	6
T. Rowe Price	5
Bankers Trust	3
Putnam	3
[illegible]	3

401 (k) international investments

Firm	No. of mentions*
T. Rowe Price	6
Vanguard Group	4
Bankers Trust	2
[illegible]	[illegible]

Money market investments

Firm	No. of mentions*
Fidelity Investments	9
Vanguard Group	9
T. Rowe Price	6
Bankers Trust	5

*Where more than one fund is used, each fund counts as a separate mention.

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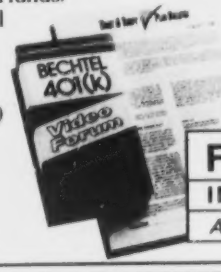

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Pensions

Continued from page 3

just $3,780, based on a final salary of $12,000 and 18 years service.

For state houses, West Virginia ranks lowest in providing a retirement benefit — Ernest Moore, the senior member with 20 years under his belt, would receive only $2,600, on a salary of $6,500. California's senior House member — Willie L. Brown Jr. — would receive a benefit of just $3,192, for 28 years of experience, with a final salary of $63,000. Idaho's senior House member, Harold W. Reid, would receive a $3,360 benefit for 18 years of service, based on a final salary of $12,000.

When annual benefit is compared to final salary, Jim Bruce, the senior member in the Kentucky House, gets 278% of final salary, and his counterpart in the senate, Pat McCuiston, will get a benefit 242% of final salary.

Mississippi's senior senator, Robert Crook, would get a benefit of 220% of final salary; Arkansas Sen. William N. Moore would receive a benefit equal to 218%.

A legislator's salary does not always indicate pension rewards. New York legislators are well-paid at $57,500 — second only to California, but like California, the retirement benefit falls short — only 33% of salary. New York's figures were obtained from the National Council of State Legislatures, which does not break down the data between the two houses.

But the states' benefits pale in comparison with those garnered by federal representatives.

According to data provided by the National Tax Payers' Union, Washington, if the senior member of the U.S. House of Representatives, Jamie Whitten, D-Miss., were to retire at the end of 1992, his benefit would be $93,510 with 41 years of experience and a final salary of $129,500. That's equivalent to 72.2% of his salary.

The data also show that with 40 years of experience, the senior member of the U.S. Senate, Strom Thurmond, R-S.C., would receive a pension of $108,094, or 83.5% of final pay of $129,500.

The average gross pension of a U.S. worker, exclusive of Social Security, provides 52% of retirement income requirements, according to Noble Lowndes, Newtown, Pa.

The *P&I*/City & State ranking compared state by state the annual pension benefit for the senior member of the House and Senate if he or she were to retire at the end of the 1992 term. Factors determining annual compensation usually were a combination of an average of the final highest salaries for three or five years, the years of service, and a pre-determined benefit formula, generally between 2% and 5%.

Where the state did not provide the dollar benefit, the data were estimated. Estimates excluded additional compensation for leadership or committee service. Statistics from the Denver office of the National Conference of State Legislatures were used for states not responding to the survey or lacking sufficient information. ■

Pension Survey

State	HOUSE Annual salary	HOUSE Years served	HOUSE Benefits if retired at end of term	SENATE Annual salary	SENATE Years served	SENATE Benefits if retired at end of term
Alabama		No pension			No pension	
Alaska	$24,012	16	8,400	24,012	29	35,100
Arizona	15,000	43	12,000	15,000	27	12,000
Arkansas	NA	36	17,280	7,500	34	16,320
California	63,000	28	3,192	52,500	35	3,083
Colorado	17,500	14	6,125 **	17,500	32	16,000 **
Connecticut	18,200	30	10,920	20,620	26	10,722
Delaware	34,622	22	11,388	35,718	28	14,700
Florida	22,600	22	14,983	22,600	22	15,364
Georgia	10,510	36	12,096 **	10,510	44	14,784 **
Hawaii*	27,000	20	39,150	27,000	20	39,150
Idaho	12,000	16	3,360 **†	12,000	18	3,780 ***
Illinois	37,230	34	40,571	37,230	37	36,746
Indiana	11,600	27	11,600	11,600	32	11,600
Iowa	18,100	27	9,122	18,100	26	9,355
Kansas*	21,948	20	6,144	21,948	20	6,144
Kentucky	9,900	29	27,500	11,385	27	27,500
Louisiana	16,800	24	27,767	45,463	48	52,527
Maine	11,250	28	8,456 **	11,250	18	6,642 **
Maryland	27,000	45	16,200	27,000	45	16,200
Massachusetts	30,000	20	25,000	30,000	20	25,000
Michigan	45,450	38	45,967	45,450	38	45,967
Minnesota	30,379	28	25,848	30,379	26	24,492
Mississippi	10,000	25	19,400	10,000	29	22,000
Missouri	22,860	32	24,960	22,860	24	18,720
Montana	14,755	33	8,520	14,775	13	5,520
Nebraska		No pension			No pension	
Nevada*	3,900	20	6,000	3,900	20	6,000
New Hampshire		No pension			No pension	
New Jersey	35,000	21	22,050 **	35,000	25	26,250 **
New Mexico	$75/day	23	5,750	$75/day	21	5,250
New York*	57,500	20	19,092	57,500	20	19,092
North Carolina*	12,504	20	9,384	12,504	20	9,384
North Dakota		No pension			No pension	
Ohio	42,426	33	29,400 **	42,426	42	44,547 **
Oklahoma	32,000	22	28,160 **	32,000	43	55,040 **
Oregon*	11,868	20	4,752	11,868	20	4,752
Pennsylvania*	47,000	20	18,780	47,000	20	18,780
Rhode Island*	300	20	12,000	300	20	12,000
South Carolina*	13,600	20	16,176	13,600	20	16,176
South Dakota		No pension			No pension	
Tennessee	16,500	26	21,840	16,500	28	23,520
Texas	7,200	28	45,882 **	7,200	29	47,522 **
Utah	$65/day	19	4,560	$65/day	39	9,360
Vermont		No pension			No pension	
Virginia*	18,000	20	5,544	18,000	20	5,544
Washington	23,200	50	34,800 **	23,200	27	18,792 **
West Virginia	6,500	20	2,600 **	6,500	28	6,720 **
Wisconsin*	33,622	20	13,536	33,622	20	13,536
Wyoming		No pension			No pension	

* Jan. 15, 1991, data provided by the National Conference of State Legislatures, which does not provide a distinction between House and Senate benefits.

** Pensions & Investments/City & State estimate based on benefit formula, years of service and salary.

† Effective Oct. 1, 1992

C. ROY

Equitable

Continued from page 2

Others, however, see more to the cuts than just cost cutting.

To some, this broad departure of top Equitable Capital staffers comes too soon after Groupe Axa S.A.'s acquisition of 49% of the Equitable Life Assurance Society of the United States, the parent company, to be pure coincidence.

Indeed, Messrs. Downes, Pappas and Briggs were three of seven top Equitable Capital employees who received promotions just a few weeks ago.

According to Mr. Miller, however, the Axa acquisition had nothing to do with the changes. Rather, it took him a few months in his new job to learn what organizational changes needed to be made. "I had the opportunity after being in the job for a few months to make (the firm) more efficient and more powerful."

One of Equitable Capital's fixed-income clients, the New York State & Local Retirement Systems, has seen little change as far as its dealings with the firm are concerned.

"Brian Wruble's leaving (in April) was certainly an event, but John Miller was largely running Equitable for the last year," a spokeswoman for the pension fund said. "The turnover doesn't affect us that much. Essentially, the people who run our money are the same." Mr. Miller replaced Mr. Wruble, who left to become president of Delaware Management Holdings Inc.

Mr. Miller said the staff cuts were instituted on his initiative, but one former Equitable employee suggested they might indicate Axa's disinterest in Equitable's outside money management business.

Another source agreed. "The reality is, from Axa's perspective, do you need four" units with investment management functions, he said. Those four arms are Equitable Capital, Equitable Real Estate Investment Management Inc., Alliance Capital Management L.P. and Donaldson, Lufkin & Jenrette. DLJ is a Wall Street broker/dealer, but it also makes merchant banking and venture capital investments on behalf of institutional investors.

One source noted the departures seem to be centered around people involved in outside marketing, possibly indicating Axa intends to focus only on internal management and to get out of the investment management business entirely.

Mr. Miller said this is not the case. "I intend to have a very powerful marketing organization," he said. "Marketing now reports to Frank Savage, so that elevates it to a very high level in our mind."

According to one source, rumors are rampant at Equitable that its equity management side will be spun off into Alliance, which is 55% controlled by Equitable Life and 45% publicly owned. But that is denied by firm officials. "Some people have an interest in spreading as much disinformation as possible," said an Equitable Capital spokesman. ■

AT DEADLINE

Continued from page 1

with First Reserve limited partners for Aug. 4 in New York, Aug. 6 in San Francisco and Aug. 11 in Minneapolis.

Republic Auto Parts hires 5

The $10 million Republic Automotive Parts plan hired five managers. Equity managers hired were: Nicholas-Applegate, $3 million, core growth; Gardner Lewis, $2 million, small-cap growth; and Gramercy Capital, $2 million, concentrated value. Fixed-income managers hired were: Garner Asset Management, for $2 million in core value, and Cincinnati Asset Management for $1 million in special situations.

All assets had been with one, unidentified manager, which was terminated. IMES Consulting Group assisted in the search.

Verni goes to State Street

Ralph F. Verni will become chairman and chief executive officer of State Street Research & Management effective Aug. 10. He was president and CEO of The New England Investment Cos.

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